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SUBJECT: Vietnam: VM Industry on Auto Policy

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1. (SBU) Summary. At an Amcham luncheon in Hanoi on January 13, Vice Minister of Industry Do Huu Hao said that the GVN is currently "reconsidering" its policy (approved by the National Assembly in May 2003) to increase the special consumption tax (SCT) on automobiles to eighty percent by 2007/8. VM Hao refused however, to estimate when the National Assembly might consider any changes to the policy. VM Hao also highlighted GVN plans to transition from applying tariffs on auto kits toward applying tariffs on a part-by-part basis and to raise the tariffs on new and used completely built vehicles. End Summary.

2. (U) Vice Minister of Industry Hao spoke about the Government's strategy for development of the auto sector at an Amcham lunch on January 13. In his prepared remarks, VM Hao provided a brief history of recent decisions affecting the auto industry and cited statistics on growth and development of the sector. Of note, in 2003 42,550 autos were sold in Vietnam, but in 2004 that number dipped to 32,847. VM Hao emphasized the government's interest in encouraging automakers in Vietnam to increase local production - particularly of auto parts and engines. (Note: While some parts are produced in Vietnam, it is a very small amount and Vietnam does not currently produce engines. End Note.) He also detailed very optimistic GVN localization targets. For example, the GVN hopes to reach 40-45 percent local content for passenger vehicles by 2010.

3. (U) VM Hao also enumerated upcoming changes on auto tariffs. The GVN plans to move from applying auto tariffs on auto kits to applying tariffs on a part-by-part basis. The GVN also plans to raise the tariffs on new and used completely built vehicles. (Note: Representatives of Ford Vietnam have told Emboffs that the industry is opposed to application of tariffs on a part-by-part basis. End note.)

4. (U) In January, in accordance with a 2003 decision (proposed by the Ministry of Finance and approved by the National Assembly) the GVN raised the SCT on autos from 24 to 41 percent. Additional increases are planned with the goal of reaching eighty percent in 2007/8. In his remarks, however, VM Hao said the SCT plan is "under reconsideration" because enterprises are opposed to increases in the SCT. The Ministry of Planning and Investment (MPI) is currently working with the Ministry of Industry (MOI), the MOF, the Ministry of Science and Technology (MOST) and the Ministry of Transportation (MOTR) to develop a revised plan for the SCT. However, given that the National Assembly has already approved the increase of the SCT to 80%, VM Hao said, it would also have to approve any changes to the policy. When asked by the audience, VM Hao refused to provide any time frame for when this might occur.

5. (U) During the a Q&A session VM Hao made very clear that there is not consensus among GVN ministries on the issue of the SCT. He noted that his ministry (MOI) is in agreement with the Vietnam Automobile Manufacturer's Association (VAMA) that decreasing taxes is more likely to result in increased production and ultimately encourage localization. However, the GVN is concerned that if it decreases the consumption tax, Vietnam's already strained infrastructure will not be able to keep pace with production increases. He also pointed out that Vietnam, as part of its WTO accession, has to harmonize the SCT rates applied to locally produced and imported vehicles. The MOF wants the harmonized rate to be 80 percent, but other ministries think that rate is too high. In "his opinion," VM Hao said, the SCT rate should not be more than 20-25 percent, but he "does not know how MOF" would feel about a lower rate. (Note: Ambassador and Econoffs have - for two years - emphasized to officials throughout the GVN that harmonization should be at lower levels to encourage development of the industry. End note.)

6. (U) At one point, a representative of Ford Vietnam in the audience noted that GVN local content targets are too difficult for the industry to meet because Vietnam's auto industry lacks economy of scale. When automakers initially

invested in Vietnam, he said, the outlook for the industry was much higher than it is now, making localization commitments seem more reasonable. He also pointed out that Vietnam would not be able to maintain local content requirements once it accedes to the WTO and suggested Vietnam eliminate local content requirements immediately. VM Hao said the MOI wants automakers to pay more attention to local content and to identify parts that could be produced in Vietnam both for local use and for export. He pointed out that Toyota has already established an export center in Vietnam and exported about \$25 million worth of parts in 2004. He also noted that Toyota has a local content ratio of about 30 percent while other automakers only have 5-10 percent local content.

17. (SBU) Comment: The lack of consensus within the GVN on the SCT policy is not new. To date, the MOF has been victorious in gaining National Assembly approval for raising the SCT and fending efforts to revise the auto plan. The MOI remains a welcome advocate of the automakers position. However, this ministry is no match for the powerful (and very revenue conscious) MOF. On a bright note, we view VM Hao's public description of the split within the GVN on this issue and his statement that the GVN is reconsidering its SCT policy as a positive sign that opportunities still exist to press the GVN to freeze or even roll back the SCT rate.

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